



Indiana Pork Producers Association

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Neil Bloede
Grant Programs
Office of the Commissioner of Agriculture
ISTA Center Suite 414
150 W Market St
Indianapolis, IN 46204-2806

Re: Value-Added Grant #VA00-284-414 – FINAL REPORT

Dear Neil,

On December 21, 2000 we conducted a meeting in Van Wert, Ohio of interested parties from Indiana, Michigan, and Ohio to discuss how the three states might collaborate to enhance the pork industry in the Eastern Cornbelt. Representatives from Purdue, Michigan State and Ohio State Universities; the pork producer associations from each state; and the state agricultural departments attended.

Two major items of consensus came from the group.

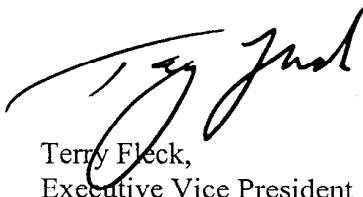
1. To explore new value added ownership and marketing models for pork production in the Eastern Corn Belt
2. To explore the feasibility of a three state producer marketing cooperative

The result of that meeting triggered an expanded proposal for the 2001 Value-Added Grant Fund Program, which was also subsequently funded. Agenda's, notes and conclusions from the December, 21st meeting are attached.

This concludes the final report on #VA00-284-414. All necessary paperwork completing the grant requirements is attached. If you have any questions, please contact me.

Thank you.

Sincerely,



Terry Fleck,
Executive Vice President

TF/rw

IN / MI / OH Pork Industry Review

15 min. Welcome / Introduction / Objectives for Meeting

Objectives

- Review pork production and marketing trends and projections in tri-state area.
- Determine interest in proactively affecting the future.
- Outline a process for identifying alternative future(s).
- Determine next steps / responsibilities.

30 min. Situation Analysis

- Each state presents trends in pork production and marketing; producer structure; and average price in the context of the national trends.
- Each state reviews infrastructure (livestock marketing agents / packer operations / etc.).

150 min. Initiative to Explore Alternatives

The Need

- Impact of pork industry trends on state economies (multiplier effect).
- Interest in exploring alternatives for production and marketing.

Process

- Define / agree to outcomes of a tri-state initiative.
- Establish process for identifying marketing and production alternatives.
 - detailed trends and expert projections
 - retailer / food service perspective
 - analogous business models (ag and non-ag)
 - brainstorm additional models
- Outline criteria for evaluating alternatives.
- Identify supporting resources required by the three states.

45 min. Next Steps / Action Assignments / Protocol

The Benefits of ABG Involvement

As the premier agribusiness consulting organization in the country, ABG brings a unique combination of experience and skill to aid this tri-state team in development of alternatives and a business plan. ABG has facilitated and coordinated a number of similar projects for both non-profit and for-profit organizations.

We have done substantial work in secondary research and expert interviews to gain insight for the situation analysis as required in Phase II of this proposed project. We would intend to work closely with the ag economists at the land grant universities in these states to gain their input as subject matter experts.

In Phase III, business-to-business qualitative research is required for Step I. This is long been a strength of ABG's. The remainder of Phase III requires broad business experience and agribusiness expertise to develop the analogs most appropriate to the situation in the pork industry. Further, the facilitation of brainstorming and ideation sessions is a core competency of ABG.

In Phase IV, ABG would seek the involvement of ag economists at the land grant universities and state development specialists in order to conduct the most comprehensive economic impact analysis of the alternatives. It will be important for a third party (such as ABG) to coordinate this evaluation process and provide the impetus and sense of urgency that is required to generate summary results in a timely fashion.

The development of the business plan, as outlined in Phase V of our proposal, again is a task that ABG performs regularly with and for its clients. We are used to preparing actionable business plans in a timely fashion from a strong commercial point of view.

TRI-STATE INITIATIVE FLIPCHART NOTES

Next Steps

- Identify grant sources and preparation timetable
Responsibility: Terry Fleck
- Appoint steering committee for oversight of tri-state effort
Responsibility: Sam / Dick / Terry
- Develop an issue feasibility study RFPs
Responsibility: Steering Committee
- Formalize tri-state coop legal entity
Responsibility: Brian Watkins / Dick Isler
- Identify university point person
Responsibility: Tom Sporleder / Jeff Armstrong / Ron Bates
- Set next meeting date / Agenda (January 2001)
Responsibility: Sam / Dick / Terry
- Complete feasibility studies by September 1, 2001 (could apply for 2002 IFAFS grant)
Responsibility: Research provider

TRI-STATE INITIATIVE FLIPCHART NOTES Attachment A

Learnings from the Five State Beef Initiative

- Need a strong champion in each state
- Steering committee should have four seats from each state
 - ↳ The members should be consistent (constancy from meeting to meeting)
 - ↳ These should be high energy "doers"
- Keep the scope truly regional (avoid individual state "agendas")
- A full-time coordinator is needed
- Keep information about the initiative flowing up and down the pork supply chain

Vision Elements from Tri-State Cooperative

- Direct market access to consumers
- Stabilize and enhance live hog margin levels
- Produce the highest quality products
- Improve communication and education among pork producers
- Realize the advantages of an integrated system through coordination of production and marketing

Feasibility Studies

- Producer Cooperative Study
 - Need formalized legal entity
 - ↳ Demonstrate leverage through matching funds
 - ↳ Helpful to have some indication of who will conduct the study
- Value-Added Alternatives Study
 - Should be forward looking, rather than historical documentation
 - ↳ Indiana and Michigan may have value-added grants to help fund (deadlines of February 15, 2001?)
- Other Grant Sources
 - ↳ IFAFS/FRA
 - ↳ FISMIP (?)
 - ↳ IPIS (?)
 - ↳ Kellogg Foundation
 - ↳ US Rep Marcy Kaptor (OH) for value-added funding
 - ↳ State Corn Growers Association and Soybean Association as funders / co-sponsors of feasibility studies or other initiatives
 - ↳ Land grant extension funding now requires 25% of funds to be applied in multi-state efforts and 25% of funds to be earmarked for research

TRI-STATE PORK INITIATIVE E-MAIL DIRECTORY

Indiana

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Facilitators

Mike Kostrzewa	mkostrzewa@abginc.com
Dave Buelt	dbuelt@abginc.com

Tri-State Pork Initiative Issues Summary; 12/21/00

Consumer

- Packing Plants
 - ↳ Access
 - ↳ Producer treatment
- Biotech Acceptance
- Maintain and Expand Consumer Market Share
 - ↳ Convenience
 - ↳ Better package
- Case-Ready Products Need to Increase
- Changing Consumer
 - ↳ Time, tastes
 - ↳ How pork production is viewed
- Ability to Anticipate Changing Consumer Demands
- Marketing
 - ↳ Mature industry
 - ↳ Consumer trends
 - food safety
 - animal welfare
- Attitude / Identity
- Image Issues
 - ↳ Industrial
 - ↳ Food safety
- Consumer Safety Confidence
- Major Disease (i.e. BSE) Food Safety Challenge!
- World Pork Consumption Will Increase Over the Next 20 Years – Largely Developing World. Will We Capture Export Potential (from increase in world pork consumption)?

Market Access

- Loss of Slaughter Capacity
- Changing Industry Trends with No Processing Changes that Match
- Consolidation Across the Pork Chain
- Market Price
- Slaughter Capacity (Infrastructure)
- Foreign Market Share
- Vertical Coordination
- Profitability
 - ↳ Market access
 - ↳ Market price
 - ↳ Packer capacity
 - ↳ Mergers
- Why Should Packers Pay More or Share Their Profits with Producers?

- Geographic Location of Industry?
 - ↳ Environment
 - ↳ Welfare
 - ↳ International Competitors
- Competing Markets / Products
- Lack of Consistent Markets (Processors)
- Price Discovery System
 - ↳ Slaughter consolidation
 - ↳ Environmental issues
 - ↳ Labor force to run operations
 - ↳ Price discovery system for all
- Export Market Opportunities with Rigid USDA-APHIS Rules and Procedures that Restrict Trade
- Equitable Market Access

Environmental

- Uncertain Environmental Standards Adds to Risk of Expansion
- Environment
 - ↳ Population (general)
 - ↳ Government
- Environmental Concerns
- Odor / Manure Management Policy
- Environmental Permits Being Required by EPA and Most States – What's the benefit?
- Government Regulations
 - ↳ Environmental
 - ↳ Local zoning
- Environmental Regulations

Financial

- Reinvestment in Production Infrastructure
- Financial Resources
 - ↳ Availability of \$
- Risk Management
- Midwest Swine Farms – Cost Competitive?
- Capital Access

Labor

- Labor Availability
- Labor Crisis -- Major Problem
- Labor Workforce Development
- Labor Pool

- Stable Production

- ↳ Packer Capacity
- ↳ Attitude
- ↳ Regulations

Producer Cooperation

- Producer Cooperative
 - ↳ Producer confidence (or lack) in this structure
- Producer Participation in Marketing System
 - ↳ Financial
 - ↳ Contractual
 - ↳ Etc.
- Contracting (transition)
- Ag Cooperative as Mechanism for Participation in Marketing System

Research and Development

- Market Access
- Public vs. Private Support of Research
- Research and Development \$

Social

- Consolidation
 - ↳ Packers
 - ↳ Producers
 - ↳ Suppliers
- Acceptance of Biotech Pork?
- Productivity / Efficiency Will Clash with Welfare Issues
- Legal Actions By Activists
- Change in Infrastructure
 - ↳ Economic drivers → (largest at present) Larger Operations
 - ↳ Environmental & welfare → Smaller
- Size
- Public / Neighbor Relations and Perception

Supply Chain Management

- Information Transfer and Transparency
- Information Access
- Identity Preservation
 - ↳ Lot hog to retail customer
 - ↳ Need for supply chain management

Agricultural Industry that Will Benefit Most from this Proposal's Value-Added Objectives

The primary beneficiary of this project will be the pork production industry. The outcome of this project can help to stabilize both pork production and producer profitability in the tri-state region.

The pork processing and transportation industries can also benefit through a more stable production environment. With more certainty around pork production numbers, major processors of pork and pork products will be more willing to keep and/or locate facilities in Indiana and the other Eastern Cornbelt States.

Collaborative Research Partners, Participating Individuals, and Organizations in Support of this Proposal

Cooperation from pork industry and government stakeholders has already been established. A meeting of interested partners from Indiana, Michigan, and Ohio was held on December 21, 2000 to discuss how the three states might collaborate to enhance the pork industry in the Eastern Cornbelt. Representatives from Purdue, Michigan State, and Ohio State Universities; the pork producer associations from each state; and the state agricultural departments attended.

The consensus of the group was to aggressively explore two areas:

1. Value-added alternative ownership / marketing models for pork production in the Eastern Cornbelt
2. The feasibility of a tri-state producer marketing cooperative

Unique Strengths and Benefits of this Collaboration

The unique strength and benefit of this collaboration is that representatives from all three states are committed to pursuing methods to support these initiatives with both money and time.

Research and Business Plan

COLLABORATIVE PARTNERS

We anticipate a joint venture between pork producer organizations in Indiana, Michigan, and Ohio in cooperation with the land grant universities including Purdue, Michigan State, and Ohio State. In addition, Agri Business Group, an Indiana agribusiness consulting firm, will be contracted to work in collaboration with these partners as the project manager. The methodology will consist of the following three phases:

PHASE ONE

This phase of this project will be designed to evaluate current trends in the pork production and processing industry in the three-state area, and to project the state of the industry if no alternative ownership or marketing options are developed.

ABG will work with the state pork producer organizations, the land grant universities, and the state reporting services to gather information on pork production trends by type of producer; production concentration trends by county or geographic area; and packing and processing capacity trends by geographic area. Information will also be gathered on transactional relationships (buy/sell, contracts, preferred agreements, etc.), including trends between producers and packers / processors; ownership models of pork production and processing in the three states; and likely drivers of expansion or constriction of pork production in each state or geographic area.

After compilation of these trends, ABG will interview 15 to 20 pork industry experts to project trends from 2001 to 2006 in key production and processing areas, assuming that no changes in ownership or marketing models are developed and implemented. Working with universities in each state, ABG will then project the impact of the trends on the pork industry and the overall economy of each state.

PHASE TWO

The second phase is designed to explore, develop, and test the feasibility of various ownership models that can enhance the competitive advantage of Eastern Cornbelt pork production. A three-step process will be used:

STEP ONE:

ABG will interview the leading pork retailers and food service companies that service the three states to explore their thoughts on how current pork production/processing business models meet their needs and ideas on how the pork production/processing industry could better serve them.

STEP TWO:

ABG will research other ag and non-ag sectors to explore successful business models. Factors such as ownership options, source verification, branded identity, pricing structures and food safety will be explored. The outcome of this step will be the identification of three or four alternative business models that could have utility in the pork industry in the tri-state area.

STEP THREE:

ABG will summarize the results of Steps One and Two and facilitate three cross-state sessions to brainstorm alternative ownership models that could better meet the needs of retailers and food service companies and enhance the profitability of pork producers. University experts, key producers, suppliers to pork production (genetics suppliers, feed companies, animal health companies, veterinarians), and leading processors will be invited to attend these sessions.

PHASE THREE

The third phase will be to prioritize the alternative business models. A group of about 25 industry stakeholders will be gathered to review the alternative models developed in Phase Two and to prioritize and detail the highest potential model or models.

PHASE FOUR

The fourth phase of the study will be the development of a broad-based business plan for the chosen alternatives. The plan will include the overall goals of the business model; pro-forma revenue and cost estimates; benefits to producers, packers, and customers (retailers and food service companies); and business arrangements among the groups. Also included will be plans for marketing the model to producers, packers and customers; communication plans; possible organizational structures for the entity that manages the model and initial implementation plans.